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— FUTURE PAPER MONEY OF THIS COUNTRY

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### FUTURE PAPER MONEY OF THIS COUNTRY.

THE people of this country want a sound paper currency, in a supply as ample as consists with its soundness and instant convertibility into coin for its face. If there were no stronger reason for this, the habit of using it has mastered them.

This habit, however, is due to reasons which are intrinsic and weighty. They will insure its general use in the long-run, all demonstrations of doctrinaires to the contrary notwithstanding. It is far safer and more convenient than coin, even if it be gold, which is some sixteen times more convenient than silver, except for fractional currency. If lost or destroyed, there is no absolute destruction of property. A piece of paper has been lost; the coin constituting the real value represented by it remains. The title to it has indeed gone from the loser of the bank or Treasury note, but it remains in the hands of the bank or government, whose paper note, now lost, promised to pay it on demand. There is no destruction of value, but only a transfer of its ownership. Moreover, the loss from wear and tear and replacement of paper money is infinitesimal. That from the necessary abrasion as well as the clipping, punching, and sweating of coin in constant use would be very onerous, as all history, especially the state of English coin before the establishment of the Bank of England, and of the old Mexican coins not long ago current in this country, abundantly proves. Nay, aside of all wear and other loss, the simple cost of the necessary coin to take the place of its present paper substitutes would be enormous; likewise the cost of handling and guarding it. The quantity required for the purpose would be immense; the cost of exchange, and by consequence of the articles exchanged, would thus be much enhanced. Prices would rise enormously even

measured by a metallic currency, and, in the face of a common impression to the contrary, vastly beyond the standard reached under the use of our present convertible paper substitutes for coin. The coin now used is little more than infinitesimal in proportion to the paper substitutes for it employed in exchange. It is simply enough to serve as a measure of value, and bears somewhat the proportion to the notes, checks, and bills of exchange actually discharging the function of money in trade, which the standard weights and measures of commerce bear to the articles whose quantity they are used to ascertain. The paper presented by Controller Knox at the recent Bankers' Convention at Niagara Falls shows that the responses of 1966 out of 2106 national banks to inquiries made by him proved, that "the relative proportion of gold coin received was 0.65, of silver coin 0.16, of paper currency 4.06, and of checks and drafts 95.13;" while at the banks in New York City the proportions were: gold coin 0.27, silver 0.01, paper currency 1.02, checks, drafts, etc., 98.70 per cent. At Sir John Lubbock's bank in London it was ascertained that the proportion of the different items received in payment for a certain period was: checks and bills 96.8 per cent, Bank of England notes 2.2, country-bank notes 0.4, coin 0.6. Mr. Knox also testifies: "The people throughout the country everywhere ask for paper, and the banks find difficulty in supplying the demand, and a like difficulty in inducing their dealers to accept coin in payment. The Clearing-House vault in New York is full to overflowing."

This too demonstrates that the coin ordinarily used in commerce is barely enough to serve as the yard-stick to determine the value represented by the paper instruments convertible into it which are actually employed. It further confirms the view of such writers on economics as J. S. Mill, that bank notes or paper money, *so long as convertible*, perform a very subordinate part in inflating that bubble of baseless credit which is the prolific cause of financial convulsions and panics. The loans of banks against which checks can be drawn, having all the power not only of paper but of metallic money between those who respectively draw and accept them, are twenty times the amount of the paper money, indeed all money, used in the liquidation of debts and the exchange of commodities. To this source, far

more than any unhealthy expansion of mere currency kept redeemable for its face, is to be attributed the inflation which portends and causes commercial panics. Whether a bank issue its credit in the form of circulating notes, or deposits to the credit of its borrowers, against bills discounted, to be drawn against by check, matters not. Depositors as well as bill-holders can demand specie. The real question is, whether it has loaned its credit to those having means, present or prospective, to pay these bills at maturity. If so, all is well. If otherwise, on any large scale, disaster will come to the bank or banks thus issuing baseless credits, and to the whole mercantile community, and others involved with them. This is the true secret of commercial panics: baseless credit given on a large scale to prop unproductive enterprises or extravagant living which consumes without producing. It may, as the last great commercial panic did, begin with the fall of great banking houses that have loaned their means imprudently, and in their own downfall have shaken the banks that have sustained them by loans. The notion that a plentiful supply of bank notes, constituting less than a twentieth of the actual medium of exchange, so long as they are kept convertible into coin, can cause any considerable and permanently dangerous inflation of prices and consequent speculation is groundless. The moment prices are raised abnormally in this way, importations will come in from foreign countries to reap these high prices. Foreigners will require these bank notes to be converted into coin, and the requisite contraction will quickly come about, especially in these days of telegraphs and steamships. An inconvertible currency is another thing, and operates on the reverse principle.

Most standard political economists and bullionists from Adam Smith down have maintained that, if an inconvertible paper currency made legal tender could be kept down to the amount of coin that would circulate in its place, were there no paper money, it would have precisely the same value. It is seldom that a fallacy so gross has shown such vitality. The idea that bits of paper without intrinsic value, and inconvertible into coin, because armed by despotic authority with the power to wipe out debts, can have the same value or fulfil the same functions as coin or its representative—coin salable in the mar-



kets of the world for its face value when it goes out of use as money—is preposterous. Such government notes have precisely the same value as stay-law certificates, which they are in fact. All other money functions or purchasing power in them are simply derivative from this. Their value is in the main regulated by the prospect of their redemption as respects the fact, degree, and time of it. This was shown abundantly during and after our last war, in which their gold price fluctuated from 38 to 100 cents on the dollar, and often several per cent in a day, according as the fluctuating phases of the war affected the prospect of their redemption. Would this have been possible in respect to gold and silver or their representatives?

It is a notable fact that the panicky element, always an unavoidable, tho in one sense needless, secondary aggravation of commercial crises, which leads to the locking up of money in hoards beyond the reach of solvent borrowers, through fear that its possessors may not be able to command it when they want it, is usually quieted by some device which brings into use some temporary substitute for the regular currency, and not subject to its legal limitations. This stops the panic by providing for the supply of the needs of solvent borrowers irrespective of the lawful money kept in inaccessible hoards for the time being. Then the lawful money itself comes out of its concealment, seeking good borrowers and profitable investment. This afterward, so far from continuing scarce, often becomes a drug. Panics have been repeatedly arrested or prevented in London by an order in council removing for a time the limitation upon the issues of the Bank of England imposed by its last charter. As soon as the merchants found the money could be had, they did not want it. By a temporary suspension of specie payments in this country in 1857 the needed inferior currency was supplied, which dissolved the panic and restored coin payments in six months. In 1873 the "lawful money" sequestered by the panic was not specie-paying; consequently certain "bank certificates" were devised to take their place temporarily. These dissolved the panic, and "lawful money" soon returned to its normal channels of circulation.

In discussing the paper money of the future it may be assumed: 1. That no better was ever devised than that of our

present national banks secured by national stocks; 2. That it is the national will steadily to reduce and speedily extinguish the public debt, so that the very basis and possibility of such a currency will steadily be passing away; 3. The question What is the best circulating medium to supply the vacuum? is more concrete than abstract; not merely what is ideally the best, if the people could be persuaded to adopt it, but what is the best that, with their predilections, traditions, and prejudices, they can probably be induced to adopt.

The practical alternatives are national Treasury legal-tender notes; national-bank notes secured as best they may be by other means than United States stocks; the system of State-bank circulation; the currency provided by some great overshadowing national bank and its branches, concurrently with the circulating notes of State banks, which prevailed through most of the first half-century of our national history.

Some say, indeed, the State is under no obligation to protect the people against issues of worthless money, and that the principle of *caveat emptor* applies here as well as elsewhere. Bank bills, however, circulate as money only in virtue of being issued by public institutions founded and authorized by government. It is the duty of government to make the best practicable provision that what thus is made current as money by its own virtual *imprimatur*, be good for its face, whether paper or coin, and to suppress all counterfeit, unsound, and fraudulent issues. These operate as a fraud upon innocent holders. They destroy the very standards of value and instruments of honorable trade. If the State abdicates this function, there will be no end of schemes and institutions for creating property, or rather filching it from the people, by issuing engraved paper dollars worth less than the paper on which they are inscribed, in exchange for it. Conscience and the Bible alike pronounce "a false balance an abomination to the Lord." Spurious money is the worst form of this sort of imposture.

It will be convenient to treat of the different kinds of paper money which may take the place of the national-bank notes now secured by the deposit of government stocks in the national Treasury, in the event of these being retired by the payment of the national debt or otherwise, in an order the reverse

of that in which they respectively succeeded each other in the past.

1. The only paper currency left us, without further legislation, on the extinction of national-bank notes, would be the legal-tender notes of the national Treasury, in which the former are now legally redeemable. These could be multiplied indefinitely for the simple cost of engraving by the national Treasury. If adequate provision both could and would be made to insure their redemption in gold or equivalent silver, in every emergency short of revolution, they would form the best conceivable currency. It would be the equal of coin without discount in every corner of our country, and in foreign countries even, to an extent not easily foreseen. The profit, whatever it might be, would belong to the people. This, however, is of small moment when balanced against its soundness and redeemability at whatever cost, in order both to preserve the national faith inviolate, and prevent the moral and commercial plague of inconvertible legal-tender paper money among a people. Still, to the full extent to which government keeps in circulation its own notes without interest, in excess of the amount of coin necessary to be kept on hand for their redemption, and the other expenses of maintaining it, it gains a gratuitous loan from the people. The real net profit of this, after all expenses, at the present low rates of interest on government loans is not large. It includes, however, in addition, the slight gain arising from the loss or destruction of these notes in any hands but its own.

Two questions arise at this point: (1) Whether it could, and (2) Whether it would if it could, keep them redeemable in all emergencies short of some social or political upheaval equivalent to revolution, and in the amount required for the public welfare, neither more nor less?

That it can do this is beyond all doubt. Even on the severest estimate, that its coin reserve must be fully equal to its paper promises to pay on demand, and that it must have a gold eagle in its vaults for every paper eagle on the wing, it is superabundantly able to do it. The paper currency of the country, adding the government legal tender to the national-bank notes, amounts in round numbers to \$700,000,000. Government could easily command this by the issue of 3- to 4-per-cent bonds to



procure whatever coin or bullion is necessary, in addition to its ordinary specie reserve, to make up this sum. For this it would be reimbursed by an equal value of its convertible notes in paying its obligations and debts of whatever kind. But the government can provide for the redemption of its notes on far better terms. Gold coin of two fifths the amount of the bills issued would be ample in all normal, and most abnormal, conditions to secure their redemption on presentation.<sup>1</sup> The gold would rarely be wanted for the paper, except to settle adverse foreign balances, as long as the bill-holder is sure he can have it if he wishes it. And the people of the country, *if it is their will to have a specie-paying currency*, never will fear that the notes of their government will be dishonored.

But if in any monetary convulsion panic should arise, even with respect to government redeeming its notes, the emergency can be met at once by issuing short-term bonds for the gold at such rate of interest as will certainly command it, and draw it from the hoards which will readily yield it up for such golden securities. This is the normal and effectual way, as all history shows, of commanding the means to meet extraordinary emergencies. The mere fact of its being known that it could and would be resorted to in case of necessity would rarely fail to prevent such necessity. Except for meeting foreign adverse balances, the known fact that in any event the government could and would provide for their redemption, would prevent their being presented for redemption. This was well illustrated by the effect of the 4½-per-cent loan which Secretary Sherman was authorized to make, and did make, in aid of the resumption of specie payments. It not only accelerated and insured this at the time fixed by law, but virtually effected it considerably in advance of that time, and in a way vastly more propitious to the public interest than any attempt to compass the same end

<sup>1</sup> U. S. Treasurer Gilfillan in his recent report pronounces a specie reserve of 40 per cent, or two fifths the amount of all immediate liabilities of the Treasury, ample to protect them. At present it holds this proportion of specie reserve to its legal-tender notes, and the full amount of the face of its gold and silver certificates in coin of each kind respectively, thus making the proportion of entire coin reserve to immediate liabilities over 51 per cent—about \$64,000,000, or, exclusive of fractional coin, \$38,000,000 in excess of an ample coin reserve to protect all immediate obligations.

by contracting the currency—a process far more stringent and disturbing than that of raising it towards par by accumulating coin for its redemption. There can be no doubt, then, of the ability of the national government to provide a sound paper currency, good always and everywhere for its face in gold, and everywhere preferred to it, with rare exceptions, with equal profit to itself and advantage to the people. But if it undertakes this function, *will* it take the necessary means to make and keep it always sound and convertible?

It must be confessed that here is where this scheme labors. Once it is recognized as the function of government to create money by engraving paper and making it legal tender whether convertible or not, and there is no end of the temptations on every hand to repudiate the obligation to redeem it, nay, to issue it, in such quantities as to necessitate its being irredeemable, in furtherance of all sorts of jobs by which all sections seek to drain the public treasury for their own benefit, or for the behoof of political parties and the cormorants who fatten upon them. No doubt a sound and conservative sentiment will be strong enough to oppose and possibly defeat such a breach of national faith, and debasement of the very measures of value and standards of honesty. But it is by no means certain to prevail. Of that we have had painfully convincing evidence in the long and severe contest for the resumption of specie payments, which more than once only escaped failure by the narrowest, and by the aid of the most adroit parliamentary tactics or hair-breadth technicalities—thus proving too clearly that the heart of the people, or enough of them to sway great parties, was joined to these paper idols and would not let them alone. These irredeemable-paper-money factions are even now courting and courted by political parties. When these are pretty evenly balanced, they become the make-weights to give the preponderance to that with which they can make the best terms. They are possessed with the delusion that value can be indefinitely created by the fiat of the government making paper stamped with the word “dollar” equal to  $24\frac{1}{2}$  grains of gold stamped likewise; and that so it has only to make the decree, and it will thus make itself rich, the people prosperous, and wealth abundant, by engraved pieces of paper.

The recent action of the government with regard to silver dollars shows a less gross, but none the less real, form of the same delusion, still dominant in Congress and the national government. As we now write, the silver dollar of  $412\frac{1}{2}$  grains is worth in the markets of the world .8701 of the gold dollar of the United States. Yet it is made a legal tender for debt of every kind by congressional enactment for an amount precisely equal to the gold dollar. Congress, which herein is presumed to express the will of the nation, not only ordains this equality of debt-paying power between the gold dollar and the silver dollar to-day worth less than  $\frac{7}{8}$  of it, but further requires the continued coinage of at least some twenty-five millions of these depreciated dollars annually, altho by no device can it keep the greater part of them in circulation, on account of their bulk so inconvenient, and on account of their depreciation so unacceptable to the people. Their circulation would be far less if there were any adequate supply of one and two dollar bills. This simply proves that the delusion of "fiat money," i.e., of creating intrinsic value by simply legislating it into being, dominates the mind of the nation to the extent of inducing a persistent attempt to add one eighth to the intrinsic value of silver, by mere arbitrary legislative decree. The principle is precisely the same, altho less grossly applied, as if the government should order that a clipped dollar, the present half-dollar, or a pound of lead, or a piece of engraved irredeemable paper should be legal tender for equal sums with the present silver dollar. The only palliating circumstance is the fact, that the existing silver dollar has the same weight of silver as when in a past generation it was equal or superior in bullion market value to the gold dollar. They were then both made of equal legal-tender value, because they were deemed to have the same intrinsic market value. When thus precisely equivalent in value, gold will practically supersede the silver dollars in actual use, on account of superior convenience. The fact that afterwards the market value of silver so advanced as to make the standard silver dollar worth more than the gold dollar drove it into entire disuse, and so effectually demonetized it, on the principle that the cheaper of two currencies of equal debt-paying power will always drive out the dearer, *all other things being equal*. Silver

having been thus in fact demonetized except for fractions of a dollar, the further coinage of it was in 1873 prohibited by Congress. It was thus, to all intents and purposes, abandoned in fact, and in the public apprehension, as a national coin, except for small change. This was the state of things when our national loans were negotiated. In terms payable in coin, the only coin meant and understood by all parties was the only coin then made and issued by the government, small change excepted, i.e. gold. This was expressed and implied in all the phraseology then in use respecting the obligations of the government payable in coin. No thought of restoring the old silver dollar in coinage and use was entertained until the Bonanza silver-mines of the Rocky Mountains and the extensive demonetization of silver in Europe cheapened it in the markets of the world, making a silver dollar of the former weight and fineness worth from  $\frac{7}{8}$  to  $\frac{9}{10}$  of the gold dollar. Then arose a loud clamor for the restoration and profuse coinage of the "dollar of the fathers," made equal in fiat or legal debt-paying power to the gold dollar, worth from 10 to 15 cents above it in the markets of the world. The profuse coinage of it was then begun, and is now going on, by command of Congress making it likewise a legal tender for all debts due to and from the government, and all other persons and parties.

Now this would have been unobjectionable, not in some minor points, but in graver and more essential aspects, economical and ethical, which awakened intense opposition, had this remonetization of silver been guarded by two provisions which were purposely and even defiantly omitted. 1. That at the start the silver in the silver dollar should be so increased as to make it equal in value to the gold dollar. 2. That its legal-tender quality should not apply to debts contracted during the period in which it had been demonetized by law, or of gold monometallism, but solely to debts contracted when the silver was concurrently with the gold the recognized legal-tender dollar of the country. With these provisions the re-introduction of the silver dollar would have violated no equity. All parties making contracts to pay or receive money, or its equivalent paper representative, would have done it knowing what they



were about, and the chance of the payer, and the risk of the payee, that if either metal should depreciate, the cheaper would be used to discharge the debt. It would be the only fair bi-metallism. It is not in the nature of things, or according to experience, that the relative values of gold and silver should remain unchanged, whether as affected by the cost of producing them, or the alternations in demand and supply for useful and ornamental purposes other than money.

But as it is impossible permanently to legislate value into any human product beyond the cost of its reproduction, so no such factitious value can be long injected into silver by any government or syndicate of governments. The recent conference of diplomatic representatives of the great powers to fix the relative values of gold and silver, broke up without seriously making the attempt; and well they might, for all such attempts are vain unless they can prevent all discoveries of Bonanza mines of either metal to lessen the cost of its production, or can increase the demand for it by arbitrary annulment of the laws of human nature which determine its wants and their intensity. The apparent exception in the case of the present concurrent circulation of gold and silver dollars, the latter worth in the markets of the world less than seven eighths of the other, is no real exception. It is due wholly to government monopoly of the coinage of silver dollars. If free coinage of silver, or coinage at a seignorage barely sufficient to pay its cost, were allowed, as in the case of gold, the process would be a very short one to the virtual demonetization of gold. All who had debts of any magnitude to pay would buy silver bullion at present prices and demand its coinage at the national mints, thus saving one eighth of the amount of the debt. The principal accumulations of gold coin, whether in Treasury or bank vaults, or private hoards, would with great rapidity find their way to the melting-pot, or to the steamship for transportation to pay for foreign imports, when \$871 gold would pay as much as \$1000 silver: just as, during the era of irredeemable legal-tender paper, gold, being at a premium, was used to discharge foreign debts, and the greenbacks or their representatives for all domestic money.



The same principle has been illustrated in reference to fractional currency throughout our whole history, which want of space alone prevents us from showing.

And to this complexion it must come at last with respect to our present silver dollar, if its coinage is persisted in even as a government monopoly. The silver dollars, so far as the government is able to keep them afloat, keeping faith with its bond-holders by paying them gold according to the meaning of its contract with them, and at the same time to avoid obstructing commerce by so bulky a medium of exchange, are taken without hesitation (1) because they are legal tender, and (2) because creditors will take them from their debtors so long as they know that others will take them from themselves in satisfaction of debts. On the other hand, they do not yet supersede gold, because, owing to the government monopoly of legal-tender silver dollars, they cannot be obtained by the people on better terms than gold dollars. But if government coinage of them goes on without check or stint, this equality of the two coins, and their continuance as such in use side by side, will cease. In due time the accumulation will be such that government must pay them out profusely in discharge of its obligations. Its gold will either be drawn from it in preference by creditors and note-holders, or kept from them and withheld from circulation. If drawn out it will go, in one form and by one channel or another, where it will do something more than pay debts which are equally well paid by a coin of seven eighths its value. In either case silver, the cheaper, will banish gold, and convertible paper dollars will be only convertible into our present silver dollars. This is only a question of time, if the present policy is persisted in. This is what the promoters of the policy mean, so far as they understand themselves; and at this point they know what they are about quite as well as they can be told. The whole clamor for the present silver dollar being put on an equality with gold worth  $12\frac{1}{2}$  per cent more, is for the purpose of keeping the real legal-tender dollar as much below gold, as much vitiated, as was the paper legal tender for some years before the resumption of specie payments. For this reason we greatly fear that the doctrine of "fiat money" would more or less dominate the policy of the government, if it were entrusted

with the delicate function of supplying the paper money of the country; and all the more so, as this would open an easy way to supply means for the innumerable claimants and jobbers who are always trying to enrich themselves and their constituents from the national Treasury. The present silver-dollar policy is a constant menace to a sound currency.

We are somewhat encouraged, as we see that Mr. Burchard, Director of the U. S. Mint, hitherto an earnest advocate of continued coinage of the standard silver dollar, advises its discontinuance, on the ground that, so far from promoting the union among the nations to fix a ratio of valuation between silver and gold by which  $15\frac{1}{2}$  grains of the former shall be equal to one of the latter, it rather retards that consummation. We warmly second his proposal, if we cannot second his reasons for it. For we do not believe it in the power of the legislation of one or many nations to establish a fixed ratio of value between silver and gold, any more than between iron and lead, wheat and maize. Their relative value must in the long-run be determined by their intrinsic value, and this in turn by the cost of production interworking with the law of supply and demand. Such value cannot long, in any normal state of things, exceed the cost of its reproduction. On the other hand, it will cease to be reproduced at existing prices unless they afford a profit. Since, therefore, silver continues to be largely produced at present market rates, and, even so, makes fortunes for many of its producers, it is idle to claim that it has, or by legislation can permanently be made to have, more than its market value. The rate, too, at which gold bullion sells, exceptional disturbing influences aside, fairly represents the cost of producing it as compared with silver. If it did not, if at present market rates mining gold were decidedly more profitable than mining silver, gold-mining would increase until the equilibration of the relative cost and price of the two metals would be effected.

Let it be noted, however, that, whatever tendency exists in the national government to vitiate its own paper currency by making its own Treasury notes legal tender, whether redeemable or irredeemable, and however this may be a reason for resorting to other methods of supplying the needed paper currency of the country, the evil and the danger cannot be wholly

avoided so long as the national government issues its own legal-tender notes as a substantive part of the national currency. For, while it does this, these notes are the supreme standard, above which no issues of banks or other institutions can rise. As they are obliged to receive legal-tender notes in satisfaction of debts due them, so they can be required to pay nothing higher in discharge of the debts they owe. Consequently, whatever the deterioration of the government issues, no others can rise above them. Until, therefore, Congress can be induced to remove the temptation to vitiate this currency by utterly abolishing it, or the legal-tender element in future issues of it, nothing is gained by resorting to other methods of filling the vacuum caused by the gradual extinction of the currency supplied by our present national banks. Like the present and past notes of these banks, however iron-clad their security, it can only secure their being as good as the national legal-tender notes which make a complete redemption of them.

2. Supposing the present security of national-bank bills to be no longer available, let us next consider the alternative of their continued issue protected by the best securities that remain available. What are these? First in order are State stocks. These cannot form the basis of a national currency when nearly one half the State debts are in default as to their interest, or under repudiation as to principal and interest. The same is true of a very large proportion of all municipal debts, county, town, and city. Under a system of State-bank circulation there are doubtless a few States in which, not only their own debts, but those of all subordinate municipalities within them are to all intents good. But in a national system it would be impossible to discriminate by any sure criterion sound from unsound securities; or, if this were possible, to do it in such a way as not to exclude from participation in the privileges of such a banking system so large a part of the country as to insure the defeat of such legislation in Congress.

3. Another plan of considerable merit for continuing the issue of bills by the national banks is, to limit the amount of them to half the capital of the bank issuing them, and make them a first lien on all its assets. No doubt this would be ample security for ordinary cases. But the failure of banks finally to

redeem their notes and pay their other debts is not an ordinary, but an extraordinary, case under any tolerable system of banking. We need a system which will make the notes worth their face in gold in all contingencies. What would such a system amount to in the case of the late Mechanics' National Bank of Newark, New Jersey? Here the losses of the bank from the thefts of its cashier and his confederates, artfully concealed, but stupidly undiscovered, were nearly five times the capital, three times the combined capital and surplus of the institution, and twice the amount of the capital, surplus, and the assessment upon the stockholders equal to the capital. As it is, whoever else loses, the bill-holders are secure, and the notes as good as those of the New York Bank of Commerce. Still, with any tolerable inspection by examiners appointed for fitness, rather than party service, it could hardly happen that a bank could be kept from going into liquidation before its means were too far exhausted to pay its circulating notes, if guarded on all sides as proposed in this plan of Mr. Coe, submitted to the recent bankers' convention. Nevertheless, this plan falls below the present system of securing notes by government stocks in one very important respect. Government bonds can instantly be turned into cash for the redemption of the notes of an insolvent bank, as soon as they are presented. No doubt exists anywhere, or for any time, as to the equivalency of a national-bank note to its face in coin. No one to whom it is offered stops to inquire whether it is issued by a solvent or insolvent bank, no matter where located. The bills of the Pacific National Bank of Boston just reported to have failed are received as readily as those of the New York Metropolitan Bank.

This could not be so in respect of bills secured merely by the ordinary assets of a bank, consisting of the notes of its borrowers or other investments usually made by banks, even tho a prior lien upon them. For first, and at best, it must take time to realize upon these assets through the usual legal processes incident to insolvent persons and institutions. This of itself would render the notes unbankable, and subject them to more or less discount for this reason. And secondly, in nearly all cases of bank-suspension (commercial panics aside) the insolvency of a bank is presumptive evidence, not only of a



temporary but an absolute inability to meet its obligations to a greater or less, certainly to some undefined, extent. At a distance from them, often in their immediate neighborhood, such bills would cease to circulate. Bankers and money-dealers in the vicinage would have means of approximately estimating their value, and would soon fix a market price for them if they were worth anything. Their value would be inversely as their distance from the place of issue. Take for illustration the two lately suspended banks to which we have referred. Without the security of their circulating notes by national stocks, who would trust them beyond their immediate neighborhood, even if there, especially the bills of the Newark Mechanics' Bank?

This points to another evil of such a currency, the same in kind as, but far less in degree than, that which prevailed under the old system of State-bank currency before the civil war and the national banking system which grew out of it. The soundness and solvency of each bank being known only among the people in its immediate neighborhood, the tendency of all its circulating notes would be to centre there, and to possess only a local credit. If they find their way to distant parts of the country, they would, as a whole, be quite sure to be sped back to the region where the credit of the bank issuing them could be known, and their soundness at once tested. The impairment to any extent of the full national credit of any kind of paper money in a like degree impairs its usefulness. It so far forth loses its character as currency and becomes classified, like a large portion of the former State-bank issues, as "uncurrent money," because in so many places at a discount, or unbankable at its face value, especially in the great monetary centres. The evils of this will further appear as we discuss the ante-war State-bank notes which preceded those of the national government and the national banks.

4. This system had furnished the paper money of the country, including almost its entire circulating medium, for about a quarter of a century preceding the outbreak of the war; and concurrently with a great National Bank of the United States and its branches, chartered by the general government, during nearly our entire previous national history. We will consider these as they operated while alone, and then as they operated



while under the concurrent but predominating influence of a great overshadowing United States Bank. Of course, it is only in their relations to paper money, as banks of issue, that we have any present call or space to look into them.

The States early began to assume the prerogative of chartering banks, not only of discount and deposit, but of issue, thus, in addition to other benefits, giving them the inducement arising from the profits, to furnish the people with the convenience, of paper money. It has been a question whether, under the provisions of the U. S. Constitution giving Congress the power "to coin money, regulate the value thereof, and of foreign coin," and forbidding any State "to coin money, emit bills of credit, make anything but gold and silver coin a tender in payment of debts," the States have the power of indirectly emitting such bills of credit, through the institutions they charter and authorize to emit them, for the purpose of being used as money, and performing every ordinary function that the coining of money would perform. We think this would be an open question now among jurists, had it not been decided affirmatively by the U. S. Supreme Court; and that it would bear reconsideration quite as well, if not somewhat better, than the first decision of that court denying the constitutionality of the irredeemable U. S. legal-tender notes. It is a curious commentary on this, however, that the general government in establishing the national-bank-note circulation extinguished the power to issue circulating notes which the Supreme Court had affirmed to be lodged in the States by the Constitution, by imposing a 10-percent tax upon it—a sufficient evidence that it would be dangerous to allow the States to tax government debentures of whatever kind; that even if the States have power to authorize banks to issue paper money *ad libitum*, when the national government has the will, it can find a way to stop it. A question might arise here too as to the legitimacy of imposing taxes for such purposes.

However this may be, we have no doubt of the expediency of preventing issues of money, paper or metallic, by the States, or by their agents and institutions, and of putting upon whatever is allowed to pass with the *imprimatur* of public authority, as money, the stamp of national authority. If the prohibition

were now removed, State banks of issue would be multiplied indefinitely, and their unsecured circulating notes would deluge the land. During the period of this kind of currency it was issued under two systems as to the constitution of the banks themselves, with still further diversities of administration in different States, to insure the convertibility of their issues. The two great systems were banks, each with its own special charter, and free banks, i.e. banks established under a general law authorizing their formation by all who would comply with its provisions. The prevailing system was that of special charter. The free system was an episode in a few States, but it was still in operation in the State of New York when the war broke out. It undoubtedly suggested the analogous system of free national banks having their circulating notes protected by adequate public securities lodged with the fiscal department of the State. It followed the failure of the safety-fund system in the State of New York. This required all the banks of the State to contribute a small percentage of their capital annually, to be held by the State as an insurance fund for the redemption of notes of broken banks. It proved inadequate to bear the strain put upon it by the bank failures which multiplied through the commercial panic extending from 1837 to 1842. The State of New York then adopted the system of making every new bank and every old bank, on the expiration of its charter, at once free and the insurer of its own bills, by requiring the deposit of an amount sufficient for the purpose in approved mortgages and public stocks, national, State, or municipal. This tempted single men, and coteries of men, all over the State, who held mortgages, or the kind of public stocks required, to organize free banks and issue circulating notes nearly equal to the face of the securities deposited, thus duplicating their interest. The result was the speedy failure of many, and crippling of most of them. The security for the bill-holders proved imperfect or worthless. Mortgages, if good, required a tedious process to turn them into cash. Often the real estate which secured them shrunk in value far below the face of the mortgage, and had to be accepted instead of cash by the mortgagee, or by the State as trustee for the bill-holder. Many stocks of States since solvent then were in default for interest. This class of securities

proved inadequate. Altogether the system was a failure, while it taught one great lesson; viz., that nothing is a proper security for bank circulation but that sort of public stocks which, in any and all circumstances, have an immediate salable value above the face of the notes protected by them. The New York free-banking system was at length reformed so as to rule out all but the highest grade of securities, such as United States or New York State stocks or their equivalents, as the basis of their bank circulation. At the time of the adoption of the national-bank system nearly all the New York State banks had got upon this footing. The free-banking system which was copied from New York in the adjacent States of New Jersey and Connecticut had only a transient trial, and disappeared prior to the war.

In the country at large, for a quarter of a century before the national-bank system was established, the circulating medium was issued by banks, either under general laws, or each specially chartered by its own State, and with various privileges and restrictions affecting the amount and safety of their issues. But the exceptions were few in which banks were not practically allowed to issue all that they could keep afloat while redeeming it on presentation. As a whole, banks were soundest, and the baseless inflation least, in the older sections of the country and in the strongest commercial centres. What in slang phrase was known as "wild-cat banking" was, as it always will be, most rampant in pioneer States. The results of the system were :

1. That failures of banks were much more frequent than now, owing to the fact that the attempt was so largely made to create capital by issuing engraved notes representing no capital, and having no substantial basis of issue or redemption.

2. Hence so many of these bank notes became of no, or of uncertain value, that, except at their places of issue, all were at greater or less discount proportioned, other things being equal, to their distance from the place of issue and redemption. At their best estate, they suffered a discount equal to the cost of sending them to the counter of the bank issuing them.

3. The loss of merchants whose business required them to receive remittances in bills of distant banks was very large. Publishers of periodicals often lost from two to five per cent in

turning their remittances into bankable funds. Great banking houses grew wealthy in the business of buying uncurrent money at a discount.

4. It was impossible to travel any distance without taking coin with all its inconvenience and exposure.

5. The liability to commercial panics was augmented so far as it was consequent on reckless or injudicious banking, and fabrication of paper money. Runs on banks always began with panic-stricken bill-holders in the vicinity—a thing impossible under our present system of perfectly secured bank notes.

No doubt similar evils would follow the free re-introduction of State-bank bills as the paper currency of the country, mitigated indeed on one side by the postal money-order system and the great development of railroads and telegraphs through the country, but proportionally aggravated by the immense increase of its area, as these affect the facility of circulating bank notes and returning them to bank counters for redemption.

6. Prior to the era we have been considering, of a paper currency issued by State banks in different States, their operation and influence were much ameliorated by the concurrent agency and influence of a great overshadowing United States Bank. Of these there were two, one succeeding the other after its dissolution by the expiration of its charter. The first was planned by Alexander Hamilton, Washington's Secretary of the Treasury, and, largely through his influence, chartered by Congress in 1791 for twenty years, with a capital of \$10,000,000. It was located in Philadelphia, with branches in Boston, New York, Baltimore, Washington, Norfolk, Va., Charleston, Savannah, New Orleans. It was established, despite strenuous opposition on alleged constitutional and other grounds. But it was found absolutely necessary as a fiscal agent of the government, a regulator of paper currency issued by State banks, an instrument for carrying on the exchanges of the country, and, in general, for evolving order out of the financial chaos induced by the expenditures of the Revolutionary war, and the enormous issues of irredeemable paper money spawned forth by the States individually, and as confederated, to carry it on. It was of incalculable benefit to the people. Altho its influence was great and beneficial upon the currency, exchanges, and business of the country, yet the opposi-



tion to it was great, not only on account of the natural antagonism of many to great corporations and moneyed powers, but also to its supposed inconsistency with certain political and constitutional theories largely cherished by parties, and for reasons, we have no room here to discuss. Its charter was not renewed. But the war of 1812 immediately following its extinction brought financial disturbances and exigencies which made the necessity of some national fiscal institution for the transaction of government business, conducting exchanges, furnishing a national currency, and giving steadiness and trustworthiness to the issues of State banks, more urgent than ever. Accordingly, in the face of strenuous opposition, a second United States Bank was chartered in 1816 for twenty years, with a capital of \$35,000,000, having its central location in Philadelphia, and branches in other chief commercial centres. It was started in the midst of prevailing financial chaos, and a generally depreciated currency of broken State banks, which had been greatly multiplied to fill several times over the vacuum created by the extinction of the original Bank of the United States. After earnest and persistent struggles it brought order out of this confusion, became the great medium of inter-State exchanges, and the source and promoter of a sound and stable national and State currency.

These Banks of the United States operated beneficially in various ways, which we shall not here undertake further to recount. Their place has, in our altered state of things, been sufficiently well filled by the national banks in respect to inter-State exchanges, and also with respect to a national paper currency. We shall now simply refer to their influence in providing a sound national currency, and promoting soundness in the circulation of State banks in the absence of secured circulating notes such as the national banks now furnish, thus showing what they might do again, if this currency should pass away with the rapid discharge of the national debt.

First. These United States banks furnished a paper currency really current through the nation. It was known to be backed by what was then an immense capital, and to possess all the prestige of national authority, indorsement, and use. Hence it was received everywhere without discount as readily as gold and silver coin. It could be used in travelling in every corner of the



land. Through their branches and the State banks to which their notes were constantly paid, they could almost everywhere be had in exchange for bills of the solvent State banks. When payments by bank drafts, checks, and bills of exchange were less known and available for multitudes than now, it was common to send notes of the Bank of the United States in letters from one extreme of the country to another. A common method of remittance from the South to students in college, as we recollect, was to cut a \$100 bill of this bank in two, and send half in one letter and half in another, to guard against thefts in the Post-Office and mail robberies.

Secondly. This U. S. Bank was felt in arresting extravagant and hazardous issues of circulating notes by State banks. For such over-issues were sure to find their way in large quantities into a bank of the magnitude of this institution, and they were forthwith returned to the counters whence they were issued for redemption. We have no doubt that such a bank, with sufficient capital and branches, might be so organized as to supply a sound and adequate national paper currency, and to check the excessive formation and issues of State banks—to be, indeed, another Bank of England here. But we do not believe that the temper of the country will permit its re-establishment. Altho re-chartered by Congress, it was vetoed by President Jackson, and encountered from him a bitter and unrelenting hostility, which succeeded in crushing it. This led to the profuse chartering of new State banks. Many of them prospered by Jackson's transfer to them from the Bank of the United States of the government deposits. This was among the causes (not, in our opinion, as has so generally been held, the chief cause), of the great commercial panic and suspension of specie payments from 1837 to 1842. Speculating in land instead of cultivating it was a far more potent cause, as may readily be seen if we call to mind that in 1836 breadstuffs were imported to this country from Europe, while multitudes of *parvenus* were building palaces and sporting their horses and equipage on the basis of paper fortunes reared on farms converted, by map at least, into town and city lots. A great financier said that the trouble was, that "one half of the people were making carriages and the other half riding in them;" and it was only the

caricature of exaggeration. The result was that the Bank of the United States, failing of re-charter by Congress, obtained a charter from the State of Pennsylvania, by paying a bonus of nearly six millions. Thus swept from its proper national foundations, it was plunged into the mire of corruption in the very first step of its new abnormal career. Out of its normal sphere it fell into the hands of speculators and kilters, and so fell to ignominious ruin. It is needless here to rehearse the steps by which the political revolution of 1840, having for an object the restoration of the United States Bank, failed of it through the untimely death of President Harrison, and the succession to his place of a Virginia abstractionist, who vetoed the bill re-chartering it. After so many mortal blows it died past resuscitation, and has left an odor from its expiring struggles which, added to the prevailing unpopularity of colossal moneyed corporations, will probably prevent its reorganization, whatever its capacity for usefulness. The insufficiency of State banks, without some such regulator, to provide the currency we need, cannot be questioned. It is almost equally certain that no such regulator can be established, even if intrinsically desirable. If there be a system of State or national banks, it should be under a general law, and not by special charters. The bonus for the charter of the United States Bank by the State of Pennsylvania is only an instance, of unparalleled enormity indeed, of this sort of corruption in granting special bank charters more than forty years ago. If so then, what would it be now?

The outcome of the foregoing discussion with respect to the paper money of the future is:

1. That the people will, and of right ought to, have such money, in some form immediately convertible into specie, as their chief circulating medium.

2. That the present national-bank notes, secured by government stocks, are incomparably the best actual or possible, unless notes of the government itself, based on such coin reserves and other provisions as shall secure their redeemability in every contingency less than some great national revolution or convulsion. The great question is whether the disposition of the nation is equal to its power, to provide such a currency.

3. The gradual extinction of the national debt is likely to

work the gradual extinction of our present national-bank notes.

4. The continuance of the national-bank issues, secured by a limitation of them to from half to two thirds of their capital, and by a first lien upon their assets, is somewhat inferior to the present national-bank currency, but immeasurably superior to any system of bank-note issue controlled by the caprice of State legislatures.

5. Such a State-bank currency is proved intolerable both in theory and practice.

6. State-bank notes concurrent with the issues of a great national bank and branches everywhere at par, and at once checking and regulating, while exchangeable with the former, is a vast improvement on a simple unmitigated State-bank-note currency. But the traditions and instincts of the people afford little prospect of a return to such an institution.

7. An ultimate national Treasury-note currency has the highest intrinsic basis of soundness and redeemability, if the people incline to use their resources for this purpose aright. But the temptations are strong, and in some contingencies might prove irresistible, to issue it upon the principle of "fiat money," in quantities practically irredeemable.

8. On the other hand, while any, even the best form of bank issues, except those secured by government stocks, have less intrinsic resources for securing redeemability in all circumstances than Treasury notes, yet so far as they are affected by the temper of the people, this will tend to hold them up to specie payments, because it is in the highest degree exacting towards moneyed corporations. But, in reference to the government, it is more favorably disposed towards free issues and a depreciated standard of currency, because it is liable to conceive that money is thus made plentiful and cheap, and that the people, instead of the banks, reap the profits of it.

Should the issue of the national-bank notes, or the profits of that issue, in any way cease, the taxes on these institutions ought proportionally to cease or abate. Indeed the present rate of taxation upon bank capital is in many instances simply extortionate. Between State and national taxation many banks annually pay 5 per cent or more of their capital in taxes. This is simply

burdening the cost of exchanges, which means ultimately the cost of all articles of exchange to the consumer. It is vain to say that the banks can and do stand it. The more they are oppressively burdened, the less they will be multiplied and the more they will be decreased. The facilities for exchange they furnish, and the benefits of competition among them, will proportionally decline. The capital of the banks in New York City was reduced by many millions in order to offset the taxation of their surplus, insisted on by assessors and sanctioned by the courts. So the State lost both the taxes and the advantages of a large banking and loan capital too. Many places are now deprived of the advantages of banking facilities on account of the taxation which crushes them out. Multitudes are educated by demagogues and other blind guides to look at national banks very much as a mad bull looks at a red flag. This infuriated spirit begets the most wild and frantic assaults upon them. They feel in the same way about those other great instruments of exchange, the railways. They might as well vent their spite at steamships and other vehicles of transportation and exchange, and bring back the glories of the "Age of Homespun," or of simple barbarism. Let abuses be reformed. But reformation is not destruction.

LYMAN H. ATWATER.









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